

VZCZCXRO4106
PP RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHPF #0277/01 1210632
ZNR UUUUU ZZH
P 010632Z MAY 09
FM AMEMBASSY PHNOM PENH
TO RUEHC/SECSTATE WASHDC PRIORITY 0654
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHC/DEPT OF LABOR WASHINGTON DC

UNCLAS SECTION 01 OF 02 PHNOM PENH 000277

SENSITIVE
SIPDIS

STATE FOR EAP/MLS, EEB, DRL
PASS TO USAID - D. WINSTON

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [ELAB](#) [EAID](#) [PREL](#) [CB](#)
SUBJECT: GLOBAL ECONOMIC CRISIS HITS CAMBODIA'S GARMENT INDUSTRY
HARD

SENSITIVE BUT UNCLASSIFIED

11. (SBU) SUMMARY: Cambodia's garment industry has been a hallmark of its economic development over the last decade. A competitive garment sector remains critical for the country's continued economic growth. However, the garment sector is experiencing immediate effects from the global economic crisis. Cambodia is losing its comparative advantage and must improve its competitiveness by addressing internal and external challenges. The government is pledging to respond and is seeking to work closely with the donor community and the garment industry. A failure to implement emergency measures will likely result in a gradual decline of the industry and lost market share to other regional competitors. END SUMMARY.

12. (SBU) Cambodia's garment industry is the leader of the formal economy, representing 80% of export revenues and an estimated 30% of total GDP. The 1999 U.S.-Cambodia Bilateral Textile Agreement contributed significantly to the rapid growth of the industry. The Agreement granted preferential access to American markets in exchange for adherence to progressive labor standards. The generous provisions attracted foreign investment between 1999 and 2008, and employment grew from 90,000 to its peak of over 350,000. Exports grew to \$2.98 billion in 2008, with 70% shipped to the United States. Cambodia is one of the top ten apparel exporters to the United States, but its 4% market share remained significantly below regional leaders such as Vietnam, with 8%, and China, with over 30%. On a global level, Cambodia represents on average 2-4% of the market. The Asian Development Bank reported that the industry's employees, over 95% young women, support about 1.8 million others (13% of the population) and many remit 30-50% of their wages to their families to supplement education and medical care costs. With an average of less than six years of education, and with over 270,000 people entering the job market each year, competition for minimum-skill positions is high.

NEGATIVE IMPACT OF THE GLOBAL ECONOMIC CRISIS

13. (SBU) Statistics released by the Ministry of Commerce, the Garment Manufacturers Association in Cambodia (GMAC) and the International Labor Organization (ILO) paint a grim picture. Garment exports to the world decreased 23% during January and February 2009, and are a total of 40% below the average for the same time period in 12008. Garment exports to the United States dropped 30.2% during this period. This decrease resulted in a roughly 20% decrease in employment in Cambodia's garment sector, which spurs a rising unemployment rate. Various sources report an estimated 50,000-70,000 workers have lost their jobs since Fall 2008, with 33,995 jobs lost from January to March 2009 alone. The Garment Manufacturers Association of Cambodia (GMAC) estimated that 70 of the 310 factories have already closed, of which 40 investors have given up completely and left the country, while others have just suspended production. (NOTE: However, some new factories have also been established. END NOTE.) According to the Ministry of Commerce, presently there are 258 operating garment factories in

Cambodia. More jobs will be shed in the upcoming months if the U.S. economy continues to stagnate.

LOSING A COMPARATIVE ADVANTAGE - ANALYSIS OF GARMENT INDUSTRY

14. (SBU) Cambodia's 23% loss in orders over the first two months of 2009 is disproportionate to the worldwide decrease in demand of 11%. The garment industry is hampered by a number of challenges. The business environment is unattractive to vertical investment (weaving, for example) due to factors as diverse as high energy costs and weak labor unions. Although Cambodia is known for its good labor record and the "Better Factories Program" that attempts to uphold that reputation, industrial relations remain complicated, with over 1,000 unions for fewer than 260 factories and a largely uneducated (and primarily male) leadership. The education sector is weak and has failed to address industry needs with appropriate skills, leaving the industry to compete on the basis of low wages for garment assembly operations. As a result, foreign-owned factories rely heavily on expatriates for higher skilled positions, which has stifled skills transfer to the poorly educated local work force. With lower costs and associated risks, Bangladesh has captured an increase of 15% of the market over the first two months of 2009, and Vietnam and Indonesia have seen 4% increases. China and Vietnam are investing heavily in infrastructure and business development activities to lure more garment industry investors.

THE GOVERNMENT PLEDGES RESPONSE

15. (SBU) Some small steps have been undertaken in response to the crisis. The government is giving more incentives such as deducting

PHNOM PENH 00000277 002 OF 002

income tax when factories purchase training for its workforce. The Royal Government of Cambodia (RGC) has also agreed to suppress Advance Profit Tax until 2011 and will contribute to the National Social Security Fund for the workers. Energy and exports costs are being studied by the RGC to determine how they can be reduced. The RGC has agreed to strengthen relations with the International Labor Organization (ILO) to improve working conditions in the textile and apparel industry. In the Ministry of Commerce's April 29 report to the Government Donor Coordination Committee (GDCC), the RGC indicated it plans to reduce export fees, reduce transaction costs, and mobilize funding to provide short-term basic skills training to workers who have lost their jobs.

IMMEDIATE ACTION IS NEEDED

16. (SBU) As the impact of the crisis is felt, Cambodians already living in poverty will face new hardships. A recent GDCC report states that income opportunities and livelihoods of the poor and vulnerable are expected to decline. The impact of the economic crisis will be particularly severe for women and children, existing urban poor, landless and land-poor families, farming households receiving reduced remittances, and returning migrants. Severe job loss in the garment industry will likely reverse improvements in poverty reduction and maternal child malnutrition, and will certainly result in a less capable workforce. The economic crisis could exacerbate a growing youth unemployment problem and increase the use of illicit drugs, leading to a socially destructive means of subsistence for many. How the RGC and its development partners respond to this crisis will set the direction for Cambodia's developmental trajectory and the well-being of Cambodians in the next decade.

Comment

17. (SBU) Many of the fundamental conditions that attracted investors to Cambodia still exist. While the current garment industry statistics seem grim, if the government and garment industry associations can craft and widely publicize a coherent promotion strategy, Cambodia could see stable growth in the longer term. And while many of the factors contributing to the global economic crisis

remains out of Cambodia's control, its urgency requires the Cambodian government to increase incentives for investors and facilitate improvements to export infrastructure and improve its competitiveness on productivity, quality, and faster more secure delivery. SEPTTEL will follow to discuss how the USG is addressing constraints in Cambodia's garment industry.

RODLEY